File

# The Hamilton Group Limited

# Annual Report 1978

The Hamilton Group Limited

# HIGHLIGHTS

| | 1978 | 1977 |
|---|---|---|
| Income before extraordinary item | $ 1,905,277.00 | $ 1,341,902.00 |
| Net income (loss) | $ 1,905,277.00 | ($ 2,310,535.00) |
| Earnings per share | | |
| Income before extraordinary item | $ .85 | $ .60 |
| Net income (loss) | $ .85 | $ (1.03) |
| Dividends paid | $ .20 | $ .20 |
| Average number of Class A and B shares outstanding | 2,240,850 | 2,240,850 |
| Class A and B shares owned in Canada | 98.0% | 98.0% |

# CONTENTS

The Hamilton Group Limited

# DIRECTORS AND OFFICERS

**HEAD OFFICE:**

5050 South Service Road, Burlington, Ontario L7L 4Y7

**DIRECTORS:**

| | |
|---|---|
| Frederick W. Dakin | President, The G. W. Robinson Co. Limited |
| Graham R. Dawson | President, Dawson Construction Ltd. |
| Lincoln S. Magor | President, Mimik Limited |
| John F. Schunk | Retired, former Vice-President, The Hamilton Group Limited |
| John G. Sheppard | Executive Vice-President - Financial, Dominion Foundries and Steel Limited |
| Paul A. Southall | Vice-President, The Hamilton Group Limited |
| Alan B. Young | Senior Vice-President, The Hamilton Group Limited |
| David M. Young | Senior Vice-President, The Hamilton Group Limited |
| William H. Young | President, The Hamilton Group Limited |

**HONORARY DIRECTOR:**

James M. Young

**OFFICERS:**

| | |
|---|---|
| William H. Young | President |
| Alan B. Young | Senior Vice-President |
| David M. Young | Senior Vice-President |
| Paul A. Southall | Vice-President |
| C. Leslie McCarthy | Secretary |

**REGISTRAR AND TRANSFER AGENT:**

Canada Permanent Trust Company, Toronto, Ontario

**AUDITORS:**

Peat, Marwick, Mitchell & Co.

# ANNUAL REPORT OF DIRECTORS

## TO THE SHAREHOLDERS

The fiscal year ended April 30, 1978 saw increasing competition and higher money cost limit the profit of Citicorp Leasing Canada Limited and Charter Credit Corporation in Canada; increasing profit in the European companies; stability returning to the Mexican economy.

Highlights of the year were:

- A profit of $1,905,277 after allowing for minority interests
- A profit of $1,065,350 from the 40% interest in Citicorp Leasing Canada Limited
- A profit for Labhire in France
- An increased profit for Labhire in the United Kingdom
- A profit of $410,524 on the sale of real estate

## FINANCIAL

Income, after allowing for minority interests, was $1,905,277 or 85 cents per common share for the year ended April 30, 1978 compared to $1,341,902 or 60 cents per common share for the previous year.

Before extraordinary items, and allowing for share sub-divisions, the earnings per share for the year were the highest in the history of the company.

Earnings were favourably affected by the decline in value of the Canadian dollar when financial results arising in other currencies were converted to Canadian dollars on consolidation.

Hamilton Group's 40% share in Citicorp Leasing Canada Limited (CLCL) contributed $1,065,350 to the consolidated profit for the year, little changed from the $1,067,200 contributed to Hamilton Group's consolidated profit of a year ago. Severe competition in the leasing of "big ticket" items of equipment (over $25,000 in original cost), together with the increasing cost of borrowed money, caused reduced profit margin. Some companies in the leasing business in Canada, particularly the chartered banks in anticipation of leasing permission under the new Bank Act, aggressively sought "big ticket" business with apparently little regard for future profit. The "big ticket" business is by far the largest leasing market in dollar terms, although contracts are at lower "spreads" than those prevailing in more specialized leasing markets. CLCL, with funds available to it after Citicorp became the major shareholder, looked to the "big ticket" market for much of its growth in assets and profit. However, with the intense competition in this market during the year, CLCL refused much of the available business because of the low rates that others were prepared to accept. In time this market will settle to a profitable level and CLCL will be competitive in it, as its cost of funds is as low as others in the leasing business exclusive of the cost of deposit funds to the chartered banks.

Charter Credit Corporation, Hamilton Group's subsidiary in mortgage lending, showed a small profit as its mortgages receivable continued to decline in a very competitive environment. While progress was made in resolving several large loans in default, these continue to tie up funds on which no income is being recorded while costs continue. Charter is being very selective on new business that it takes and this will result in further reductions to its mortgage portfolio.

The Hamilton Group sold its 50% interest in Canaplan Leasing Limited during the year at a loss of $117,371. This loss may be recovered under an agreement with the purchaser if Canaplan attains certain profit levels in future.

Approximately 4.1 acres of the 5.3 acres of Hamilton Group's old textile property in Hamilton was sold during the year resulting in a profit of $410,524. The Hamilton Group retains approximately 1.2 acres on which is the building occupied by Hamilton Group's subsidiary, Cancord Limited. This land and building is carried at $163,000 on Hamilton Group's books.

The Ministry of Transport and Communications (MTC) is constructing an interchange at the Appleby Line and Q.E.W. in Burlington. This requires a relocation of the South Service Road over approximately 4½ acres of Hamilton Group land adjacent to its head office. Approximately 2 acres of this land was expropriated by the MTC during the year at a price yet to be determined. The remainder will be deeded to The City of Burlington with the City paying for local improvements and agreeing to certain separations which will permit Hamilton Group to sell its surplus Burlington land holdings in parcels in future. No profit has been recorded yet for the land expropriated.

In February 1978 Hamilton Group subscribed for preferred and common shares in Torham Packaging Inc. at a cost of $152,750 and loaned it $150,000 in subordinate debt. Torham is a new company formed to purchase and operate the folding and set-up box manufacturing divisions of the former Thompson Diversacorp Inc. After repayment of the subordinate debt and the redemption of certain preference shares, which is anticipated by the end of 1982, The Hamilton Group will own 34% of the Torham common shares. Employees and their close associates hold the remaining common shares. The Toronto-Dominion Bank is the other subordinate lender and it holds preference shares to be redeemed by 1982. It is also the banker of Torham.

In Mexico, IEOSA, the leasing company which is 85.9% owned by The Hamilton Group, contributed $207,592 to the consolidated profit of the company. This profit arose from the collection of receivables denominated in U.S. dollars during the year. The exchange differential had previously been shown as part of unearned income. This showed a book profit when converted to pesos at the new rate of exchange. Otherwise, IEOSA had a loss on its operation because it provided for foreseeable future losses on its leases receivable. Mexican operations are covered more fully in the section on IEOSA later in the report.

The Labhire companies in Europe, which are owned by Hamilton Group's subsidiary, HGL (U.K.) Finance Limited, had a successful year, contributing $269,068 to the consolidated profit of the company, compared to $39,389 a year ago. Labhire in France showed its first profit since its start-up in late 1973. The improving profit trend for these companies is expected to continue.

## BANK ACT

The new Bank Act, if enacted into legislation as it presently stands, would have a profound effect on the future course of The Hamilton Group Limited. If Citicorp became a bank under the provisions of the Act, it would have to either purchase the 40% interest of Hamilton Group Limited in Citicorp Leasing Canada Limited, or else sell its 60% interest, as the Act requires that all leasing business be done within the bank itself. Citicorp has requested that the existing ownership be allowed to remain as it was before the changes in the Bank Act were proposed, i.e. that it be "Grandfathered", but to date no reassurance has been received from the authorities on this point. The Act also places restrictions on the growth in assets of foreign bank subsidiaries. The effect of these on the operations of Citicorp Leasing Canada Limited, if its present ownership is "Grandfathered", is unclear. It is unlikely that definite answers to matters of concern to Citicorp and The Hamilton Group arising from the provisions of the new Bank Act will be received prior to the annual meeting of the shareholders.

## HAMILTON RENTALS

Subsequent to the year end, in June 1978, Hamilton Group's 13.9% interest in Hamilton Leasing Limited in the United Kingdom was sold for £1.50 per share which resulted in $2,071,000 being received. These shares were carried at a value of $1,371,000 on Hamilton Group's books and it is estimated that the disposition will result in a profit of approximately $700,000.

Effective June 1, 1978, HGL (U.K.) Finance Limited purchased the assets, excluding receivables, of the Hamilton Rentals division of Hamilton Leasing Limited for £2,437,000. The Hamilton Rentals division has shown an increasing profit in recent years. Financing for this purchase was arranged by providing a subordinate loan from Hamilton Group to HGL (U.K.) Finance Limited of $1,300,000 Canadian with the remainder coming from bank borrowing in the United Kingdom in sterling.

HGL (U.K.) Finance Limited will operate with two subsidiaries in the rental business, namely Labhire and Hamilton Rentals. While the business of Labhire is mainly the rental of electronic equipment, the business of Hamilton Rentals has different applications in office equipment, data processing and computer terminals. The rental business in Europe appears to have a growth potential similar to that of leasing in the 1960s. Hamilton Group is looking to this source for increasing profit.

## DIRECTORS

Mr. F. W. Dakin and Mr. John G. Sheppard joined the Board of Directors at the last annual meeting of the company. Both are prominent businessmen. F. W. Dakin is President of The G. W. Robinson Company Limited which operates a chain of department stores in the Niagara Falls-Hamilton-Kitchener area of Southern Ontario. J. G. Sheppard is Executive Vice President - Financial of Dominion Foundries & Steel Limited. Both have played a large part in the success of their respective companies and their presence adds great strength to the Board of The Hamilton Group Limited.

# CANADA

## Charter Credit Corporation

During the year Charter Credit's mortgage portfolio declined from $14,714,357 to $13,372,543. This decline reflected the drop in construction starts and the general decline in real estate activity in Quebec, Nova Scotia and Northern Ontario which contain geographically the major part of Charter's mortgage business.

Mortgages on residential property outside the major urban centres were the business of Charter Credit at the time it was acquired by The Hamilton Group Limited in 1972. Competition in this market has increased significantly since then as banks and other first mortgage lenders raised their loan limits up to 85% of the market value of a property and lifted territorial restrictions on loans which previously were confined to serviced property in the larger communities. Thus Charter's traditional residential mortgage business has been eroded by geographic, economic and rate competition. Charter is in a period of transition as a result.

Whereas some residential mortgage loans of good quality are made, other types of business such as interim construction or bridging loans, commercial and industrial loans are becoming a larger percentage of the mortgage portfolio. As Charter remains in this transitional phase in a very competitive environment, coupled with its own high credit standards, it is expected that mortgages receivable will further decline.

Currently there are two major loans that have been in default over two years. Charter received two separate offers of over $1 million on the security related to one loan and when neither of these offers could be completed by the prospective buyers, Charter applied the deposits forefeited of $200,000 to reduce the capital of the loan which now stands at $604,000. While certain legal matters relating to title of the properties securing the other loan have not been fully clarified, Charter believes its position is strong and accordingly it is maintaining and operating the properties until the legal questions are resolved. Recently two other large loans have defaulted on payments. The underlying properties are well located and soundly built at costs below current replacement values. With current economic uncertainties and possible legal delays, it will take time to either rent or sell these advantageously. In total, Charter should experience no capital losses on the eventual sale of these properties as profits on some will offset any losses on the others. However, considerable funds will be tied up that will not accrue any revenue and this will affect net income for the year.

Income before taxes and inter-company charges for the year ended April 30, 1978 was $253,000 compared to $255,000 for the previous year. This represents a less than 10% return of Hamilton Group's investment. At present, with the continued transitional phase of new business, very competitive pricing, higher borrowing costs, and large loans on accrual, the outlook for the present fiscal year is for further deterioration in earnings. This could change rapidly with the sale of some of the properties owned by Charter.

## Cancord Limited

This wholly-owned subsidiary had another profitable year as it increased its sales of twine, ropes, and cordage to over a million and a half dollars in a highly competitive market.

## International Mercantile Factors Limited (IMF)

During the year, IMF went through major organizational changes. In January 1978 a new President and Chief Executive was appointed. It was agreed that the new President subscribe for a 25% common share interest in IMF by purchasing treasury shares at the same cost per share as the original subscription made by The Hamilton Group. Payment for these shares will be made over four years. Hamilton Group's shareholding will be reduced from 50% to 37½% as a result.

In the latter part of 1977, some very serious loan defaults occured which necessitated an increase in the provision for losses by $458,000. In order to demonstrate the shareholders' continued confidence in the business and the new President, it was deemed appropriate for the shareholders to lend IMF $400,000 in subordinate debt of which Hamilton Group's share was 50%. As a result of these bad debts, Hamilton Group sustained a

loss of $81,000 as its share of the IMF results for the twelve months to April 30, 1978. Hamilton Group's investment in IMF now stands at $382,000 for common shares and $750,000 in subordinate debt.

The present outlook for IMF is encouraging. Since January a number of accounts have been added, and the general level of existing accounts activity has increased. Overall, it is anticipated that IMF will have a profitable year and provide an adequate return on investment.

**Citicorp Leasing Canada Limited (CLCL)**

The Consolidated Balance Sheet and Statement of Earnings as at the fiscal year end, December 20, 1977, with comparative figures for 1976 and a Combined Five-year Summary are shown on Pages 7 and 8.

The year 1977 showed a satisfactory growth in new business. Leases receivable added increased 32% over 1976 to $103,464,000 which is a record. Total assets increased 26% to $153,209,000. A significant increase in volume in the larger but lower yielding leases, along with very competitive pricing in the market, are reflected by the reduction of unearned income as a percentage of leases receivable, from 24.3% to 22.8%.

Net income for the year was $2,365,000 compared to $2,474,000 in 1976. However, the 1976 results included certain accounting changes instituted in that year which increased the net income by approximately $500,000. Taking this into account net income increased in 1977 by about 20%.

Hamilton Group remains committed to maintaining its 40% interest in Citicorp Leasing Canada Limited. Not only has the 60/40 partnership with Citicorp proven beneficial to the leasing business, it has provided Hamilton Group with an interest in a company which can now realize its potential in the market place. However, as noted previously in the report, the proposed amendments to the Bank Act presently before Parliament make no provision for Citicorp to become a bank in Canada and still have Hamilton Group maintain its minority interest in the leasing companies with which it has so long been associated. Both Citicorp and Hamilton Group are making representations to the appropriate authorities to permit a continued interest by Hamilton Group in equipment leasing, as originally approved by the Foreign Investment Review Agency. However, until the uncertainty caused by the proposed Bank Act is removed, it is impossible to predict the future course of Hamilton Group's continued participation in Citicorp Leasing Canada Limited.

Currently the specialized divisions of health services leasing and office equipment leasing are performing as anticipated. Again as noted previously, the larger equipment leases are extremely competitive and this coupled with increasing interest costs is restricting profit growth for the current fiscal year. The short term outlook then is for a satisfactory growth in assets with a somewhat less than anticipated increase in net income.

## CITICORP LEASING CANADA LIMITED

## CONSOLIDATED BALANCE SHEET
**December 20, 1977 with comparative figures for 1976**

### ASSETS

| | (Dollar amounts expressed in $000's) 1977 | 1976 |
|---|---|---|
| Cash | $ 1 | $ 126 |
| Leases receivable | 176,104 | 139,173 |
| Allowance for losses | (2,432) | (1,778) |
| Unearned income | (40,223) | (33,888) |
| Estimated residual values | 8,996 | 8,344 |
| Equipment purchased for lease commitments | 5,416 | 4,691 |
| Accounts receivable | 37 | 179 |
| Fixed assets | 807 | 338 |
| Excess of cost over book value | 4,095 | 4,165 |
| Other assets | 408 | 286 |
| | $ 153,209 | $ 121,636 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1977 | 1976 |
|---|---|---|
| Short term unsecured debt | $ 70,110 | $ 47,494 |
| Accounts payable and accrued charges | 6,115 | 4,185 |
| Income and other taxes payable | — | 1,936 |
| Long term secured debt | — | 354 |
| Long term unsecured debt | 43,000 | 45,789 |
| Subordinate funded debt | 16,800 | 7,564 |
| Deferred income taxes | 3,940 | 733 |
| Shareholders' equity: | | |
| Preferred shares | 2,000 | 2,000 |
| Common shares | 10,000 | 10,000 |
| Retained earnings | 1,244 | 1,581 |
| Total shareholders' equity | 13,244 | 13,581 |
| | $ 153,209 | $ 121,636 |

The Hamilton Group Limited

**CITICORP LEASING CANADA LIMITED**

**CONSOLIDATED STATEMENT OF EARNINGS**
**Year ended December 20, 1977 with comparative figures for 1976**

| | (Dollar amounts expresed in $000's) | |
|---|---|---|
| | 1977 | 1976 |
| Earned and other income | $ 24,452 | $ 22,974 |
| Cost of borrowed funds | 10,469 | 9,735 |
| Provision for losses | 1,069 | 2,468 |
| Operating expenses | 8,046 | 6,322 |
| | 19,584 | 18,525 |
| Earnings before income taxes | 4,868 | 4,449 |
| Income taxes: | | |
| Current | (700) | 2,387 |
| Deferred | 3,203 | (412) |
| | 2,503 | 1,975 |
| Net earnings | $ 2,365 | $ 2,474 |

## CANADIAN LEASING

**COMBINED FIVE-YEAR SUMMARY**
(Dollar amounts expressed in $000's)

| | Dec. 20 | | April 30 | | |
|---|---|---|---|---|---|
| **BALANCE SHEET** | 1977 | 1976 | 1976 | 1975 | 1974 |
| Leases receivable | $176,104 | 139,173 | 123,176 | 126,564 | 115,008 |
| Allowance for losses | $ 2,432 | 1,778 | 2,016 | 1,992 | 1,803 |
| Allowance for losses to leases receivable | % 1.4 | 1.3 | 1.6 | 1.6 | 1.6 |
| Unearned income | $ 40,223 | 33,888 | 29,159 | 30,898 | 26,706 |
| Unearned income to leases receivable | % 22.8 | 24.3 | 23.7 | 24.4 | 23.2 |
| Estimated residual value of equipment | $ 8,996 | 8,344 | 5,850 | 5,870 | 4,896 |
| Total assets | $153,209 | 121,636 | 106,900 | 102,174 | 100,869 |
| **OPERATIONS (12 Months Ended)** | | | | | |
| Lease income | $ 59,755 | 51,693 | 48,981 | 46,253 | 32,936 |
| Earned income | $ 24,452 | 22,974 | 18,967 | 18,464 | 13,339 |
| Provision for losses | $ 1,069 | 2,468 | 878 | 1,406 | 1,222 |
| Leases receivable added | $103,464 | 78,373 | 49,357 | 65,135 | 75,443 |
| Original cost of leased equipment | $240,313 | 196,280 | 178,656 | 168,378 | 146,033 |
| Net losses due to bad debts | $ 415 | 2,712 | 851 | 1,217 | 637 |
| Net losses to average leases receivable | % 0.26 | 2.10 | 0.68 | 1.01 | 0.66 |
| Number of employees at end of period | 245 | 232 | 253 | 226 | 242 |
| Number of leases | 89,487 | 90,085 | 90,146 | 89,964 | 82,100 |
| Average original cost of equipment per lease | $ 2.69 | 2.18 | 1.98 | 1.87 | 1.78 |

# INTERNATIONAL

## MEXICO

### Impulsora de Equipos de Oficina (IEOSA)

The impact of the devaluation that occurred during the last fiscal year on September 1, 1976, continued to be felt throughout the fiscal year ended April 30, 1978. This was apparent in the slow, although improving, level of economic activity in the country. For IEOSA it was felt in problems related to collections, bankruptcies, and the overall ability of lessees to meet the increased costs related to the devaluation.

Despite the slow, although more stable economy, IEOSA was able to improve its collections and credit performance. During the year arrears over 30 days were reduced by 8.9% of leases receivable. Further improvement is anticipated during the current fiscal year in both leases receivable and other receivable arrears. However, during the year two large leases were sufficiently impaired that one major loss was experienced and a major increase in the provision for future losses was undertaken by the other. By fiscal year end 1979, it is planned that IEOSA will have a very "clean" portfolio.

As well as improvement in collections, continued progress was made in matching U.S. dollar liabilities with U.S. dollar assets. At year end 64% of the lease and note portfolio was payable in peso equivalent to U.S. dollars. This means dollar assets were approximately $7.7 million compared to dollar loans of $11.2 million. It is hoped to have these amounts in balance by April 30, 1979 or to have sufficient reserve established to protect IEOSA against any further devaluation of the peso.

At the time of devaluation IEOSA had approximately 40% of its lease contracts payable in U.S. dollars. The related gain resulting from devaluation was deferred in the consolidated financial statements to be realized when the accounts were collected. As a result $207,592 of this amount was recognized as profit in The Hamilton Group consolidated financial results for the year.

Prior to devaluation and the cash restrictions imposed in 1974/75, IEOSA had developed a country-wide leasing organization that was second to none in Mexico. However, since that time, IEOSA has had no new funds for expansion and this, coupled with collection and other problems arising from devaluation, has severely restricted the amount of new business that it has undertaken. IEOSA now has the organization to treble its new business with little increase in operating or administrative costs. Hamilton Group considers this a most valuable asset of IEOSA although the cost of maintaining it will severely restrict profits until funds for expansion become available.

Thus, the outlook for the fiscal year ending April 30, 1979 is for IEOSA to continue to improve its collections and to lessen its foreign exchange exposure. New business should be of good quality and at attractive yields although not in sufficient volume to earn more than a token operating profit because of the lack of funds. Hamilton Group should show some earnings on consolidation due to the collection of U.S. dollar pay accounts similar to, but less than, that earned in the current fiscal year.

The economic outlook in Mexico continues to improve under the sound administration of President Lopez Portillo. Important discoveries of oil and gas are leading to increased petroleum exports and improvements in Mexico's balance of payments. Developing these new reserves and bringing them to market should provide the stimulus to ensure an expanding economy over the next few years. Under these conditions, and with a sound organization and a good quality lease portfolio, IEOSA should be able to attract the financial partner that Hamilton Group seeks to enable IEOSA to realize its potential.

## EUROPE

### Labhire Group

The two Labhire companies in the United Kingdom and France had very successful years. In the U.K. pre-tax profits increased 91% and in France, Labhire had its first profitable year. The contribution of both companies to Hamilton Group's consolidated profit increased from $39,389 in the year ended April 30, 1977 to $269,068 in the year ended April 30, 1978

# The Hamilton Group Limited

## INTERNATIONAL

Further progress is expected in the current year, particularly in Labhire France. A year ago it was expected to break even at best, whereas it actually achieved a good profit, and this year it is now expected to reach the same percentage return on sales as its U.K. parent. Business continues good for both companies.

### Hamilton Leasing Limited

Hamilton Leasing also had a very successful year in its fiscal year to March 30, 1978, making a profit of over £2 million before tax. This completed the long period of rehabilitation of this company commented on before in Hamilton Group's previous annual reports.

Hamilton Leasing was 72% owned by Finance for Industry (FFI) in the U.K., and FFI supplied all its operating funds. In mid-May an arrangement was made between Hamilton Group and FFI whereby FFI agreed to buy Hamilton Group's shares in Hamilton Leasing for 150% of par value, and in turn FFI agreed to Hamilton Leasing selling the assets of its rental division to Hamilton Group. These transactions were completed by June 30, 1978.

Hamilton Group received $2,071,000 from the sale of its shares in Hamilton Leasing, which was approximately $700,000 over the value of these shares on its books. In turn Hamilton Group paid Hamilton Leasing a little over $5 million to buy all the assets of Hamilton Leasing's rental division. This division traded under the name of Hamilton Rentals, and a new company, Hamilton Rentals Limited, is being formed to operate this business.

### Hamilton Rentals

This business has operated as a division of Hamilton Leasing since 1964, and has been profitable every year except 1974/75 and 1975/76, when it was affected by the same problems as Hamilton Leasing. In its early years it operated primarily by renting typewriters and some miscellaneous office equipment, but in the past two years the most rapidly growing sectors of its business have been the rental of computer terminals and mini-computers. Total rental income has approximately doubled in each of the last two years, as have the divisional profits it contributed as part of Hamilton Leasing. At the time of its purchase by Hamilton Group, the business employed 80 people and had offices in London, Bristol, Birmingham, Manchester, Whitburn (near Edinburgh) and Aberdeen in Scotland. Annual rental income was at the $5 million level.

Hamilton Rentals is not expected to be a major contributor to earnings of Hamilton Group in this current year. It has to create its own head office structure, including new premises in London, and it has to install its own computer, as it has been using the facilities of Hamilton Leasing which will now be withdrawn. In addition, it will have higher interest and depreciation costs initially, as an independent business, than it had as a division of Hamilton Leasing.

These are largely the non-recurring costs to set up the business as a separate limited company, and to prepare it for future growth. The margins in its rental business are comparable to those of Labhire, and it should soon achieve the same profit to rental income percentage as Labhire. The two businesses are quite separate. Labhire rents electronic test equipment primarily to the electrical engineering trade, whereas Hamilton Rentals rents to the office management and computer departments of business, and typically for periods of three months and longer. Much of its business is open ended leasing whereby the customer signs up initially for a fixed period of 12 months, and then keeps the equipment thereafter as long as required on a month-to-month basis. Both companies maintain their own equipment and guarantee trouble-free operation of their equipment to their customers.

Hamilton Rentals business is expected to continue to grow quickly in the U.K. Very little renting, of the type done by Hamilton Rentals, is done on the Continent of Europe, and there appears to be a big market potential there. There is a lot of work to be done to get Hamilton Rentals operating smoothly and profitably in the U.K. as a company on its own, but once this is done it is planned to investigate European opportunities more fully.

# AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1978 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of these subsidiaries represent approximately 32% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hamilton, Canada
July 12, 1978

The Hamilton Group Limited

# CONSOLIDATED FINANCIAL STATEMENTS

## THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET**
**April 30, 1978**
**with comparative figures for 1977**

### ASSETS

| | 1978 | 1977 |
|---|---|---|
| Cash and short-term deposits | $ 2,195,976 | $ 2,266,817 |
| Leases receivable, less allowance for losses, $207,223 (1977, $204,084) (note 2) | 10,153,921 | 10,000,108 |
| Mortgages receivable, less allowance for losses $198,512 (1977, $216,261) | 13,367,085 | 14,967,111 |
| Unearned income | (2,876,840) | (4,742,088) |
| Estimated residual value of property and equipment | 987,499 | 732,635 |
| Equipment purchased for lease commitments, at cost | 174,023 | 167,370 |
| Notes and accounts receivable | 5,123,736 | 4,080,081 |
| Real estate held for sale (note 3) | 261,127 | 798,260 |
| Investments and advances (note 4) | 8,700,927 | 8,623,912 |
| Property, plant, equipment and improvements (note 5) | 4,323,911 | 3,663,416 |
| Deferred income taxes | 2,755,554 | 3,499,270 |
| Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off | 1,149,695 | 1,211,997 |
| Other assets | 915,312 | 895,611 |
| | $ 47,231,926 | $ 46,164,500 |

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET
April 30, 1978
with comparative figures for 1977

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1978 | 1977 |
|---|---|---|
| Short-term secured debt (note 6) | $ 28,091,867 | $ 29,313,494 |
| Notes and accounts payable and accrued charges | 2,339,773 | 1,032,450 |
| Income and other taxes payable | 13,589 | 4,573 |
| Long-term secured debt (note 7) | 762,000 | 991,000 |
| Subordinated funded debt (note 8) | 103,500 | 376,000 |
| Mortgage payable (note 9) | 1,441,489 | 1,456,311 |
| Minority interests in subsidiary companies including interest in preferred shares of $346,650 (1977, $349,650) | 433,885 | 404,104 |
| Shareholders' equity: | | |
| Stated capital (note 10) | 3,901,337 | 3,901,337 |
| Retained earnings | 9,900,200 | 8,442,370 |
| Contributed surplus | 244,286 | 242,861 |
| Total shareholders' equity | 14,045,823 | 12,586,568 |
| Commitment and contingent liability (note 11) | | |
| | $ 47,231,926 | $ 46,164,500 |

On behalf of the Board:

A. B. YOUNG, Director

W. H. YOUNG, Director

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

## THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS

**Year ended April 30, 1978**
**with comparative figures for 1977**

| | 1978 | 1977 |
|---|---|---|
| Amount at beginning of year | $ 8,442,370 | $ 11,201,509 |
| Net income (loss) | 1,905,277 | (2,310,535) |
| | 10,347,647 | 8,890,974 |
| Deduct: | | |
| Dividends: | | |
| Class A shares | 418,094 | 436,065 |
| Class B shares | 27,253 | 10,289 |
| | 445,347 | 446,354 |
| Taxes on undistributed income | 2,100 | 2,250 |
| | 447,447 | 448,604 |
| Amount at end of year | $ 9,900,200 | $ 8,442,370 |

### CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

**Year ended April 30, 1978**
**with comparative figures for 1977**

| | 1978 | 1977 |
|---|---|---|
| Amount at beginning of year | $ 242,861 | $ 208,886 |
| Discount on redemption of preferred shares of a subsidiary | 1,425 | 33,975 |
| Amount at end of year | $ 244,286 | $ 242,861 |

See accompanying notes to consolidated financial statements.

## THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF INCOME

**Year ended April 30, 1978**
**with comparative figures for 1977**

| | 1978 | 1977 |
|---|---|---|
| Gross income (note 12) | $ 13,718,928 | $ 11,311,111 |
| Income before the following | 8,288,656 | 6,922,591 |
| Recovery of cost of leased property | 3,195,207 | 2,778,016 |
| Cost of borrowed money including $202,039 (1977, $232,507) on indebtedness initially incurred for a term exceeding one year | 3,145,481 | 3,268,781 |
| Depreciation and amortization | 545,928 | 415,808 |
| | 6,886,616 | 6,462,605 |
| Operating income | 1,402,040 | 459,986 |
| Investments: | | |
| Income | 1,024,913 | 1,244,570 |
| Gain (loss) on dispositions and revaluations | 122,747 | (29,846) |
| Amortization of goodwill | (62,292) | (62,292) |
| | 1,085,368 | 1,152,432 |
| Gain on sales of real estate | 410,524 | — |
| Income before income taxes, minority interests and extraordinary item | 2,897,932 | 1,612,418 |
| Income taxes (note 13): | | |
| Current | 153,000 | 575,000 |
| Deferred | 786,000 | (343,000) |
| | 939,000 | 232,000 |
| Income before minority interests and extraordinary item | 1,958,932 | 1,380,418 |
| Minority interests | (53,655) | (38,516) |
| Extraordinary item resulting from devaluation of the Mexican peso less applicable income taxes of $2,248,000 | — | (3,652,437) |
| Net income (loss) | $ 1,905,277 | $ (2,310,535) |
| Earnings (loss) per share: | | |
| Income before extraordinary item | $ .85 | $ .60 |
| Net income (loss) | .85 | (1.03) |

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

**Year ended April 30, 1978**
**with comparative figures for 1977**

| | 1978 | 1977 |
|---|---|---|
| Funds provided: | | |
| Income before minority interest and extraordinary item | $ 1,958,932 | $ 1,380,418 |
| Add (deduct) items not affecting funds: | | |
| Provision for losses | 298,770 | 245,137 |
| Depreciation and amortization | 608,220 | 478,100 |
| Excess of earnings of non-consolidated subsidiaries over dividends received | (494,071) | (137,394) |
| Revaluation of investments | (18,897) | 437,846 |
| Deferred income taxes | 786,000 | (343,000) |
| Gain on sale of real estate | (410,524) | — |
| Loss on sale of investments | 100,485 | — |
| Funds provided from operations | 2,828,915 | 2,061,107 |
| Funds provided from leases receivable: | | |
| Decrease in leases receivable | — | 5,061,161 |
| Decrease in residual values | — | 373,840 |
| Net credit losses | — | (483,841) |
| Increase in unearned income | — | 1,213,081 |
| | — | 6,164,241 |
| Funds provided from mortgages receivable: | | |
| Decrease in mortgages receivable | 1,617,775 | 172,151 |
| Net credit losses | (78,466) | (1,434) |
| | 1,539,309 | 170,717 |
| Proceeds on sale of real estate | 930,475 | — |
| Proceeds on sale of investments | 704,736 | — |
| Increase in liabilities other than borrowings | 1,316,339 | — |
| Decrease in cash and short-term deposits | 70,841 | 90,391 |
| | $ 7,390,615 | $ 8,486,456 |
| Funds used: | | |
| Funds invested in leases receivable: | | |
| Increase in leases receivable | $ 156,952 | $ — |
| Increase in residual values | 254,864 | — |
| Net credit losses | 234,914 | — |
| Decrease in unearned income | 1,865,248 | — |
| | 2,511,978 | — |
| Increase in equipment purchased for lease commitments | 6,653 | 49,830 |
| Increase in notes and accounts receivable | 1,043,655 | 1,601,037 |
| Increase in investments and advances to other companies, net | 369,268 | — |
| Additions to plant, equipment and improvements, net | 1,194,549 | 449,992 |
| Decrease (increase) short-term secured debt | 1,221,627 | (1,265,415) |
| Decrease in long-term secured debt | 516,322 | 305,089 |
| Redemption of preferred shares of a subsidiary | 1,575 | 53,525 |
| Dividends declared | 445,347 | 446,354 |
| Reduction in net assets of a foreign subsidiary due to currency devaluation | — | 6,015,433 |
| Other | 79,641 | 830,611 |
| | $ 7,390,615 | $ 8,486,456 |

See accompanying notes to consolidated financial statements.

**THE HAMILTON GROUP LIMITED AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**April 30, 1978**

1. Summary of significant accounting policies:

(a) Principles of consolidation:
The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company balances and transactions have been eliminated. Certain accounts of the previous year have been reclassified to conform with the current year's presentation.

(b) Currency translation:
Assets and liabilities arising in foreign currencies due within one year and leases and notes receivable arising in foreign currencies have been translated at the rates of exchange in effect at the year end. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

Gains on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized and losses are reflected in income.

(c) Leases receivable and unearned income:
The leasing subsidiary follows the practice of recording gross rentals to be received over the periods of the leases and estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

(d) Mortgages receivable and interest income:

The mortgage financing subsidiaries generally follow the practice of recording as an asset the principal portion of the mortgage payments to be received over the term of the mortgage when the funds are advanced.
Interest is taken into income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are taken into income in equal monthly amounts over the remaining life of the mortgages.

(e) Income taxes:

The company follows the tax allocation method of accounting for income taxes which makes full provision for such taxes on all reported income.

(f) Depreciation and amortization:
(i) Generally, depreciation is provided on plant and equipment, and amortization on leasehold improvements on a straight-line basis at annual rates which are designed to write off the assets over their estimated useful life.
(ii) Excess of cost over net book value of subsidiaries at dates of acquisition is being amortized over a twenty year period.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1978

2. The lease contracts provide for equal periodic payments to be received over their terms. The amount of rentals to be received over the next five years is summarized below:

| Within: | 1978 | 1977 |
|---|---|---|
| One year | $ 6,782,405 | $ 5,898,758 |
| Two years | 2,430,724 | 2,856,632 |
| Three years | 958,406 | 1,016,470 |
| Four years | 147,128 | 371,619 |
| Five years | 42,481 | 60,713 |
| | $10,361,144 | $10,204,192 |

3. Real estate held for sale:

| | 1978 | 1977 |
|---|---|---|
| At cost | $ 101,760 | $ 101,760 |
| As valued by the Board of Directors at April 30, 1975 | 213,905 | 739,164 |
| | 315,665 | 840,924 |
| Less accumulated depreciation | 54,538 | 42,664 |
| | $ 261,127 | $ 798,260 |

Depreciation is being provided on certain facilities used by the company and subsidiaries, pending the sale of the property.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1978

4. Investments and advances:

| | 1978 | 1977 |
|---|---|---|
| Investment in shares: | | |
| Citicorp Leasing Canada Limited | $ 5,284,863 | $ 4,699,513 |
| Hamilton Leasing Limited | 1,371,550 | 1,371,550 |
| Other investments: | | |
| At equity | 382,287 | 1,076,703 |
| At cost | 152,751 | — |
| At market value | 609,476 | 811,609 |
| | 7,800,927 | 7,959,275 |
| Advances to affiliated companies | 900,000 | 664,537 |
| | $ 8,700,927 | $ 8,623,912 |

The investment in Citicorp Leasing Canada Limited is valued at the company's share of the net tangible assets therein. The company's share of the equity of Citicorp Leasing Canada Limited amounts to $6,860,000.

The investment in Hamilton Leasing Limited is valued at cost plus value of stock dividends received less an adjustment resulting from a previous decline in the exchange rate of the British pound.

5. Property, plant, equipment and improvements, at cost less accumulated depreciation and amortization:

| | 1978 | 1977 |
|---|---|---|
| Buildings | $ 2,450,683 | $ 2,266,412 |
| Equipment and improvements | 438,134 | 339,231 |
| Automobiles | 248,462 | 174,860 |
| Rental equipment | 2,592,072 | 1,861,545 |
| | 5,729,351 | 4,642,048 |
| Less accumulated depreciation and amortization | 1,653,964 | 1,227,156 |
| | 4,075,387 | 3,414,892 |
| Land | 248,524 | 248,524 |
| | $ 4,323,911 | $ 3,663,416 |

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1978

6. Short-term secured debt:

The company has entered into an agreement with its bankers whereby its shares in its principal investments are pledged as collateral.

7. Long-term secured debt (payable by Charter Credit Corporation):

6¾% senior notes, Series A, maturing April 15, 1984.
The senior notes rank prior to all other indebtedness of the subsidiary company and are secured by a first floating charge on all assets of the subsidiary.

The sinking fund requirements, net of purchases of par value of $138,000 made in advance of sinking fund requirements, are $100,000 in 1979, $62,000 in 1980 and $100,000 in each of the years 1981 through 1983.

| 8. Subordinated funded debt: | 1978 | 1977 |
|---|---|---|
| The Hamilton Group Limited: | | |
| 9% Subordinated note payable maturing on August 1, 1977 | $ — | $ 250,000 |
| Charter Credit Corporation: | | |
| 7% Debentures maturing August 1, 1978 | 103,500 | 126,000 |
| | $ 103,500 | $ 376,000 |

9. Mortgage payable:

First mortgage, due July 1, 1998, with interest at 8⅞%, payable in equal monthly instalments of $11,763 including principal and interest.

10. Stated capital:

(a) Convertible shares without par value Class A, issued 2,015,650 shares (1977, 2,165,925) Class B, issued 225,200 shares (1977, 74,925).

(b) The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis. The directors may, in declaring a dividend on the Class B shares specify that the dividend shall be paid out of tax-paid undistributed surplus or out of 1971 capital surplus on hand. Such dividends are not subject to income tax in the Class B shareholders' hands, however, the valuation base for capital gains tax purposes will be decreased by the amount received by the shareholder. At April 30, 1978, retained earnings did not include any amount with respect to tax-paid undistributed surplus.

10. Stated capital (continued):

Amendments to the Income Tax Act (Canada) enacted into law December 15, 1977 with effect from April 1, 1977 provide for the abolishment of payment of dividends out of tax-paid undistributed surplus and 1971 capital surplus on hand as of December 31, 1978.

(c) During the year the holders of 150,275 Class A shares converted such shares into a similar number of Class B shares.

11. Commitment and contingent liability:

The company has entered into a forward exchange contract to purchase $1,450,000 U.S. maturing on February 8, 1979.

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in its opinion, more than offset such claim.

12. Gross income arises from:

| | 1978 | 1977 |
|---|---|---|
| Lease rentals and related income | $ 9,865,314 | $ 7,351,190 |
| Interest on advances to affiliated companies | 69,271 | 59,891 |
| Interest from mortgages and agreements of sale | 2,054,483 | 2,233,772 |
| Sales | 1,729,860 | 1,666,258 |
| | $ 13,718,928 | $ 11,311,111 |

13. Income taxes:

Income taxes payable by the company and its subsidiaries are reduced as a result of non-taxable items which are included in the determination of income.

**THE HAMILTON GROUP LIMITED AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**April 30, 1978**

14. Remuneration of officers and directors:

The aggregate remuneration as directors of the company's eleven directors amounted to $13,700 (1977, $11,200); the aggregate remuneration as officers of the company's six officers amounted to $271,000 (1977, $313,400); during 1978 four officers were also directors.

15. Anti-Inflation Act:

The company's ability to increase dividends is subject to the restrictions imposed by the Anti-Inflation Act and Regulations.

16. Canada Business Corporations Act:

During the year the company applied for and was granted continuance under Section 181 of the Canada Business Corporations Act.

**17. Subsequent event:**

Under the terms of an agreement effective June 1, 1978 the company disposed of its investment in Hamilton Leasing Limited for an aggregate cash consideration of $2,071,000 resulting in a gain on disposition of approximately $700,000 and acquired certain assets necessary to operate the business of the Hamilton Rentals Division of Hamilton Leasing Limited for an aggregate cash consideration of approximately $5,000,000 for which financing has been arranged. The acquisition of the Hamilton Rentals Division will be accounted for as a purchase.

# BANKERS

| | |
|---|---|
| **CANADA** | Bank Canadian National<br>The Bank of Nova Scotia<br>Canadian Imperial Bank of Commerce<br>The Mercantile Bank of Canada |
| **UNITED STATES OF AMERICA** | Bank of Virginia International<br>Chemical Bank<br>Crocker National Bank<br>The First National Bank of Chicago<br>Wells Fargo Bank |